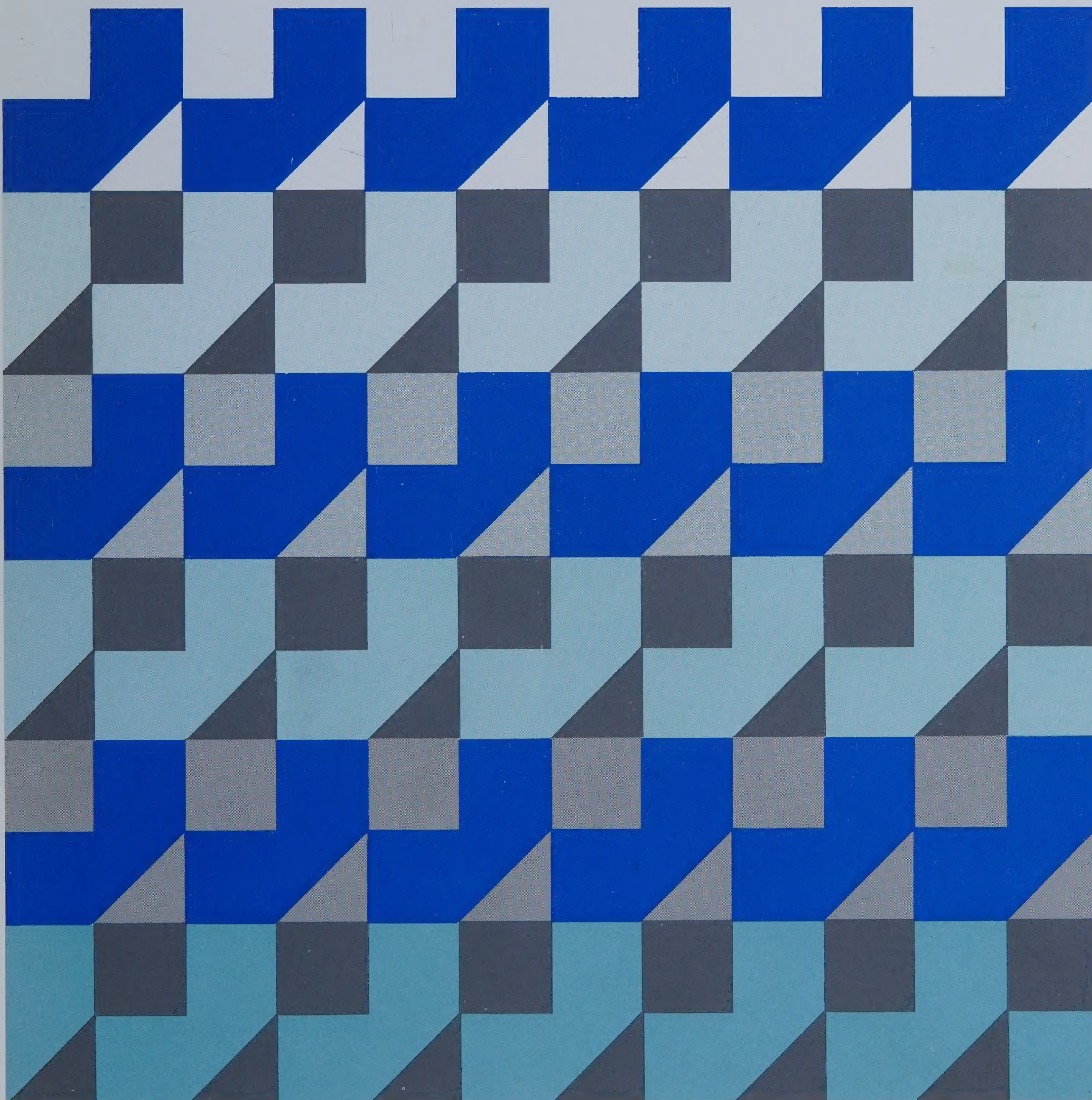
Jannock Limited
Annual Report 1978



Jannock Limited

jannock (jan' ok) (North. dial.) *a.* and *adv.* Fair, straightforward

Half Year Report to Shareholders

Jannock Limited had record earnings for the six months ended June 30, 1978. Consolidated net earnings were $7,538,000 as compared with $5,644,000 for the first half of 1977. Per share earnings were $1.40 for the first six months of this year and were 96 cents in the first half of 1977. Per share earnings are therefore up 45 per cent over the earlier period.

The results above reflect the operations of Westeel-Rosco Limited for a one month period. The effective date of acquisition of the Corporation's 76.6 per cent interest in Westeel-Rosco was May 31, 1978.

Per share earnings for the second quarter of this year were 96 cents as compared with 61 cents for the second quarter of 1977.

Sales

To June 30, 1978 consolidated sales amounted to $113,936,000 and were $85,542,000 for the first two quarters of 1977.

Acquisition of Westeel-Rosco Shares

In the first quarter report, you were advised that on April 25, 1978 the Corporation acquired 469,180 common shares of Westeel-Rosco Limited from Reynolds Extrusion Company Limited at a price of $21.75 per share. The purchase represented over 24 per cent of the issued and outstanding common shares. On April 27, 1978, the Corporation made a cash offer to purchase the remaining issued and outstanding common shares of Westeel-Rosco. The offer was not conditional upon a minimum number of common shares being deposited in acceptance of the offer. As a result of the offer, the Corporation acquired an additional 1,015,688 shares to bring its holding to 76.6 per cent of the issued and outstanding shares.

Consolidated Statement of Earnings

for the six months ended June 30
($000's)

	1978	1977
Sales	113,936	85,542
Cost of sales and operating expenses	95,831	73,510
Depreciation	2,225	1,584
	98,056	75,094
Earnings from operations	15,880	10,448
Interest on long-term debt	1,043	1,376
Other interest	1,263	428
	2,306	1,804
Investment and other income	426	1,147
	1,880	657
Earnings before income taxes	14,000	9,791
Provision for income taxes	6,197	4,147
	7,803	5,644
Minority interest	265	—
Net earnings	7,538	5,644
Earnings per share	$ 1.40	$ 0.96
Fully diluted earnings per share	$ 1.23	$ 0.83

Consolidated Balance Sheet

as at June 30
($000's)

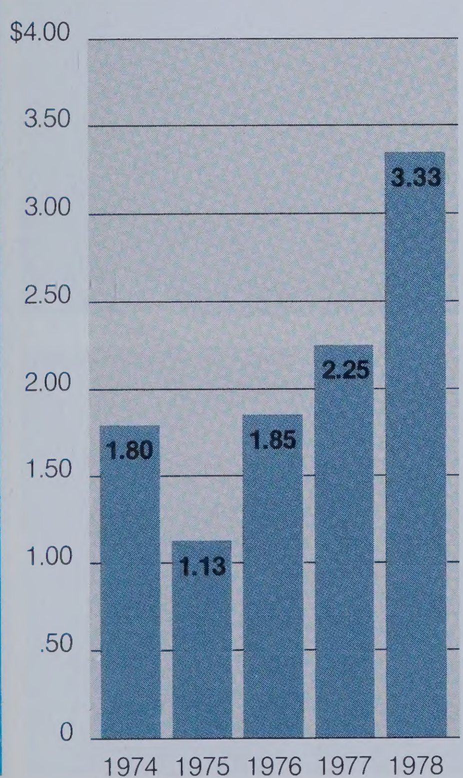
	1978	1977
Assets		
Current Assets		
Cash and short-term investments	2,544	22,005
Accounts receivable	63,748	24,997
Inventories	87,079	20,526
Prepaid expenses and other assets	5,521	3,209
	158,892	70,737
Investments	2,739	5,764
Fixed assets-net	70,643	39,340
Intangibles	12,405	12,823
	244,679	128,664
Liabilities		
Current Liabilities		
Bank advances	55,789	11,445
Other current liabilities	52,453	19,781
	108,242	31,226
Long-term debt	44,264	25,312
Deferred income taxes	12,373	7,256
Minority interest	10,235	—
	175,114	63,794
Shareholders' Equity		
Preferred shares	24,686	24,994
Equity shares	19,838	21,280
Retained earnings	25,041	18,596
	69,565	64,870
	244,679	128,664

Financial Highlights

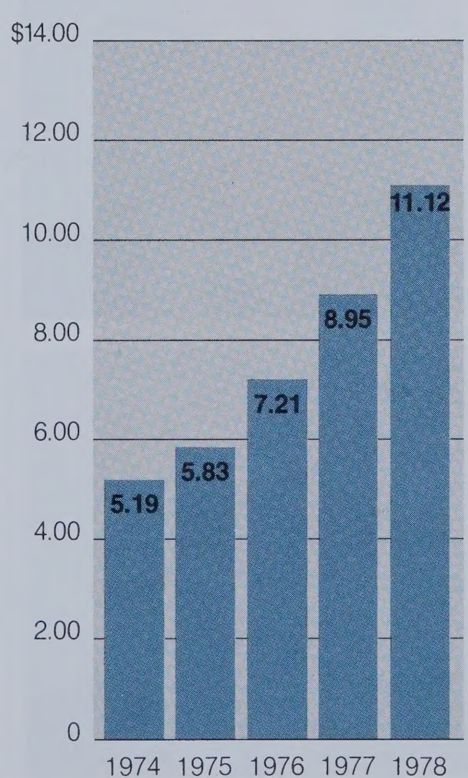
	1978 $ Million*	1977 $ Million*
Sales	**323.3**	175.8
Earnings from operations	**40.8**	23.6
Provision for income taxes	**16.3**	9.1
Net earnings	**18.2**	12.8
Earnings per Common share	**3.33**	2.25
Equity per Common share	**11.12**	8.95
Working capital	**66.3**	32.7
Dividend per Common share	**1.08**	.54

*Except per share figures.

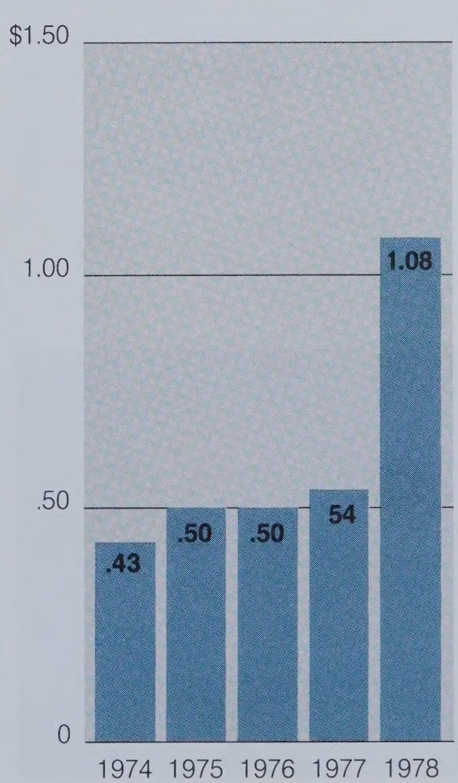
Earnings per Common Share Before Extraordinary Items

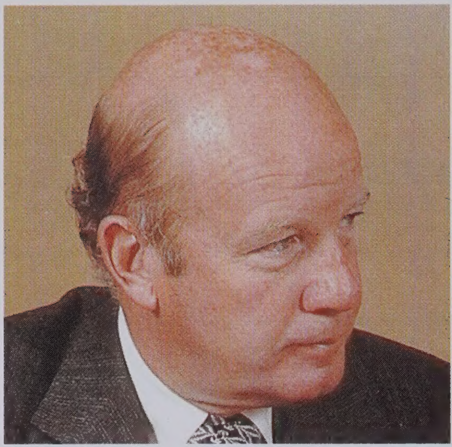


Equity Per Common Share



Dividend Per Common Share

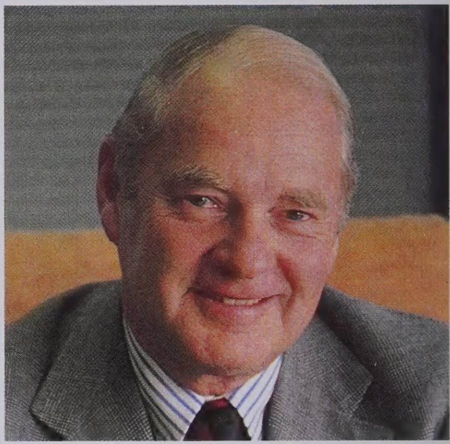


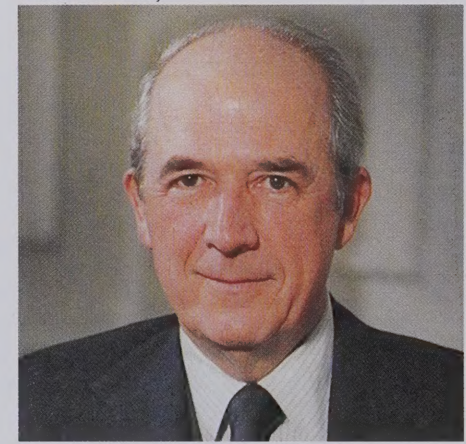

J. Howard Hawke


L. Yves Fortier


Lewis H.M. Ayre

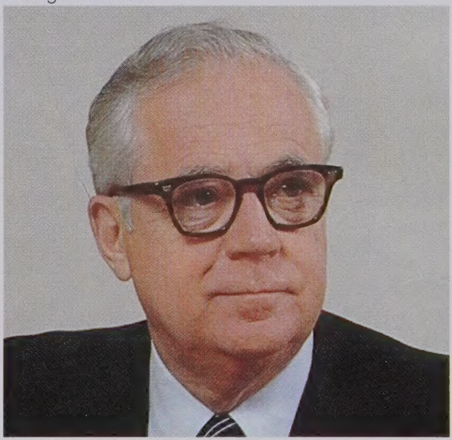

Donald R. Sobey


George E. Mara


George C. Hitchman

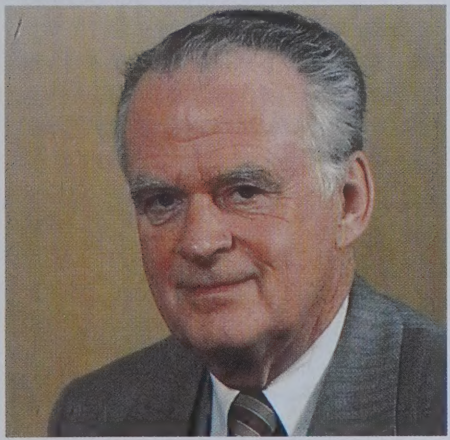

William J.R. Paton


Donald G. Willmot


Walter G. Ward


William M. Hatch


H. Gordon MacNeill

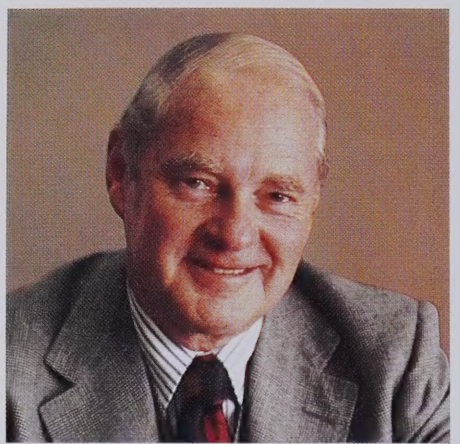

J. Allan Boyle

The Directors

Lewis H.M. Ayre, St. John's, Newfoundland	Chairman of the Board, Ayre & Sons, Limited
**J. Allan Boyle, Toronto, Ontario	President, The Toronto-Dominion Bank
L. Yves Fortier, Montreal, Quebec	Partner, Ogilvy, Montgomery, Renault, Clarke, Kirkpatrick, Hannon & Howard
*William M. Hatch, Toronto, Ontario	President, Hatchwill Investments Limited
**J. Howard Hawke, Toronto, Ontario	President, Bache, Halsey, Stuart Canada Ltd.
*George C. Hitchman, Toronto, Ontario	Deputy Chairman, The Bank of Nova Scotia
*H. Gordon MacNeill, Toronto, Ontario	President and Chief Executive Officer, Jannock Limited
*George E. Mara, Toronto, Ontario	Chairman of the Board, Jannock Limited
William J.R. Paton, Thunder Bay, Ontario	Chairman of the Board, The Northern Engineering & Supply Co. Limited
Donald R. Sobey, Stellarton, Nova Scotia	President, Empire Company Limited
**Walter G. Ward, Toronto, Ontario	Chairman of the Board, Algoma Steel Corporation Limited
*Donald G. Willmot, Toronto, Ontario	Chairman of the Board, The Molson Companies Limited

*Member of the Executive Committee
**Member of the Audit Committee

Report to the Shareholders



George E. Mara

H. Gordon MacNeill

1978 Results

We are pleased to report that 1978 was a year of significant achievement for your Corporation. Record levels of sales and profit were achieved and important steps were taken that we expect will be of substantial benefit to the Corporation in the future.

Net earnings for the year were \$18,191,000 or \$3.33 per share, compared to the 1977 earnings of \$12,819,000 or \$2.25 per share. Earnings per share have almost trebled from the \$1.13 rate in 1975.

Consolidated sales for the year were \$323,302,000, up from \$175,773,000 in the previous year. Much of the increase in sales was attributable to the Corporation's acquisition of a 76.6% interest in Westeel-Rosco Limited for seven months of the year, although all of Jannock's operations achieved sales gains.

Operations

In 1977 we embarked on an aggressive program of expansion in our brick business. We were prompted by the market opportunities that exist in Canada and the United States and the expertise that exists in our subsidiary, Canada Brick Company Limited.

The continued expansion of our brick business and acquisition strategy has provided substantially higher sales and earnings and laid the groundwork for continuing improvement in the future. The gains came from better performance in our existing operations, completion of the expansion of our brick plants at Burlington and Michigan and the acquisition of two additional brick companies in the United States.

Despite the predicted downturn in housing starts and construction in general, we expect to operate at or near capacity level in all our brick plants in the coming year. The exception will probably be the Province of Quebec where construction of all types is still depressed.

Shipments of sugar remained at approximately the same level as 1977 and the dollar sales were only slightly ahead of the earlier year. The world raw sugar markets were stable last year and prices of raw sugar remained at low levels. At the Saint John refinery, we continued to make improvements in our operation and completed the installation of the new clarifying system which was started in 1977. The installation of the new units allow us to improve the efficiency in filtering sugar liquor. Work is continuing on various other improvements to the refinery and to its packaging operations. We anticipate that raw sugar prices will remain at low levels in 1979 as world raw sugar inventories are still high. This situation will allow us to sell approximately the same quantity of sugar this year.

The market served by Allanson Manufacturing Company did not experience much growth during 1978. However, with close cost controls and the addition of some new products, satisfactory results were achieved for the year. A reorganization of our manufacturing operations was completed during the year and substantial improvements were made. We are hopeful that some of the new products that have been developed will start to show positive results in the next two or three years. These products are related to energy conservation and should have a good market.

Sonco Steel Tube had an excellent year in 1978 and the plant ran to capacity for the last six months. The installation of a new looper on our large mill enabled us to make substantial economies and increase our production. The advance booking of orders for 1979 has been most favourable and should help us attain our profit goals.

Jannock Tube completed the consolidation of Lyman Tube and Tubeco Limited. This combination provides us with a very strong and efficient distribution system for tubular products across the country. We enter 1979 with good inventories and should benefit from the continuing strong markets.

Acquisitions

Jannock Limited has been heavily involved in certain areas of the steel

business in Canada for a number of years. Our subsidiary, Sonco Steel Tube manufactures hollow structural steel products and our steel distribution Corporation, Jannock Tube Limited, has been involved in the warehousing and selling of special steel products for many years. On April 25th, 1978, the Corporation acquired 469,180 Common shares of Westeel-Rosco Limited from Reynolds Extrusion Company at a price of $21.75 per share. Subsequently, the Corporation made a cash offer at the same price to purchase the remaining issued and outstanding Common shares of Westeel-Rosco. As a result of the offer, the Corporation acquired an additional 1,015,688 shares to bring its holdings to 76.6% of the issued and outstanding shares. A plan of amalgamation was then proposed which would have resulted in an amalgamation of Westeel-Rosco Limited and three other Jannock subsidiaries. Certain shareholders of Westeel-Rosco commenced proceedings for an injunction to stop the amalgamation. The injunction was granted and the amalgamation will not proceed at this time.

Westeel-Rosco Limited is a broad based Corporation involved in metal fabrication and distribution. Its product line is varied and caters to five main markets: agriculture, highway and drainage, building products, warehouse/residential and industrial products. It has manufacturing and distribution facilities throughout Canada and a small operation in the United States.

On March 31st, 1978 we acquired the assets of the H.B. Sipple Brick Company of Stanton, Kentucky. While the plant is relatively new, the Company has been in operation for many years and has an outstanding record of good quality and service in the market it serves.

On August 31st, 1978, Michigan Brick merged with the Richland Brick Company and its subsidiary, the Ohio Brick & Supply Co. of Mansfield, Ohio. The two plants, situated on a large acreage, have a capacity of close to 50 million bricks per year.

Both the Kentucky and Ohio acquisitions contributed to Jannock's earnings in 1978.

To provide future increases in sales and earnings, additional expansion at Michigan and Kentucky was approved and will come on stream in 1979. Improvements will be made to the newly acquired Ohio operation. Land was acquired in Texas for the construction of a large, efficient brick-making facility to service that state.

Capital Changes

Due to changes in the Income Tax Act that related to the payment of tax deferred dividends, the Class A and Class B shares were reclassified as Common shares.

Directors

On April 26th, 1978, Mr. Donald Sobey, President of the Empire Company Limited, was elected a director of the Corporation. Mr. Sobey has extensive interests in Canadian industry and business and will provide valuable input to the Corporation.

Dividends

The Corporation has been restricted for some time as to the amount of dividends it could pay because of the anti-inflation program. The Corporation increased the dividend from 14.31 cents to 27 cents per quarter at the end of the year. Jannock has recently adopted a policy designed to provide the holders of Common shares with the option of receiving future dividends in cash or as stock dividends.

Outlook

Our first and main task in 1979 and 1980 will be the consolidation and improvement of the recent acquisitions and expansions. We have many large projects underway and have some others in the initial planning stage.

With the ever widening base of our business, we are seeing more and more opportunities for expansion. We will continue to explore these areas so that subsequent expansionary moves can be made in the most lucrative areas.

Particular emphasis will be placed on organization and development of human resources. While Jannock has a nucleus of people of high calibre, we nevertheless must develop additional management to handle our recent expansions and also those that are contemplated.

It is obvious by our actions that we feel that there are excellent opportunities in the brick industry both in Canada and the United States and we will continue to pursue our program vigorously.

The steel area is one that has considerable potential and we will be searching out the best opportunities in this area. Our Westeel-Rosco subsidiary will be embarking on a number of projects to increase capacity and improve operations.

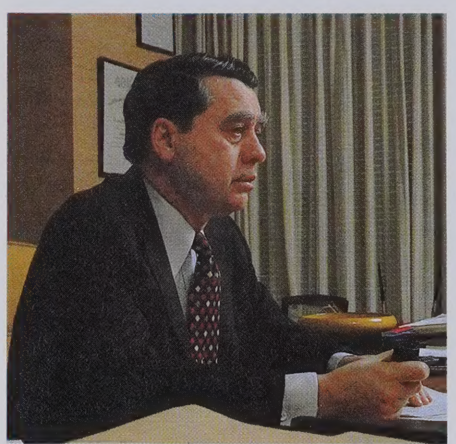
The favourable progress of your Corporation is the direct result of the performance of its employees. Their approach to our business and a sense of urgency to bring forth accomplishments has made our superior performance possible.

George E. Mara,
Chairman of the Board

H. Gordon MacNeill,
President and Chief Executive Officer

March 7, 1979

Financial Review



C.W. Leonardi

Acquisitions

The major acquisition in the year was the purchase of a 76.6% interest in Westeel-Rosco at a total cost of $32 million. This operation was included in Jannock statements for the seven month period commencing June 1, 1978 and approximately 52¢ of the 1978 earnings per share came from this source. It is important to note that because of the cyclical nature of Westeel's annual earnings, namely, low first and fourth quarters, a straight mathematical extension of this figure to a full year's result is not meaningful. If the 76.6% interest in Westeel had been owned for all of 1978, the contribution to Jannock's earnings per share would have been 61¢. In addition, there were two Brick acquisitions made for a total consideration of $8 million, as detailed in Note 1.

Accounting Policies

There has been one change in the year, namely, the introduction of the temporal method of translation of foreign currencies. This method was laid down by the Canadian Institute of Chartered Accountants (C.I.C.A.) for all financial statement periods commencing after December 1, 1978. This change did not result in any significant effects on the financial statements.

Earnings

Earnings for the year, after minority interest, amounted to $18,191,221 or $3.33 per share compared to $12,819,366 or $2.25 per share for 1977.

There was only a minor change in the number of shares outstanding during the year due to the exercise of certain options and warrants. However, in 1977 there was a substantial change in the number of shares outstanding so that a more meaningful comparative position would be $3.33 in 1978 and $2.35 in 1977.

Interest Costs

Shareholders, I am sure, need no reminding that 1978 saw six increases in the prime bank rate in Canada, which rose from an opening figure of 8¼% to a closing figure of 11½% and subsequent to year-end to 12%. The operating bank position was maintained at reasonable levels throughout the year. Re-financing and expansion of our Brick Group long-term debt increased long-term debt by $10 million to a level of $23 million by the end of 1978. This fact, together with the additional capital commitments already approved for the Brick Group of a further $12 million, will increase interest expense in 1979.

Income Taxes

The income tax rate, as shown by the 1978 results, is substantially higher than the previous year, namely 45.8% compared to 41.5%.

The main reasons creating this result are as follows:

1. The average rate from the earnings of Westeel for the 7-month period was 44.7%.

2. Earnings from U.S. sources increased for the Jannock Group in 1978 which have a U.S. rate covering Federal and State taxes in excess of 48%.

3. Certain provisions of a non-deductible nature.

4. Increased provincial rates.

The deferred income tax shown in our current liabilities for the first time this year pertains to the Westeel operation and their holdback positions on construction contracts and profit on uncompleted contracts.

Balance Sheet

The acquisitions, primarily Westeel, resulted in Balance Sheet increases in current assets and liabilities. The working capital of the Corporation increased during the year from $33 million to $66 million while the comparative current ratios were 2:1 in 1977 and 1.7:1 in 1978. This reduction was basically due to the increased inventory of Westeel at the end of 1978 which created substantial increases in bank advances. However, it is still a very sound position for the Corporation.

The minority interest represents the portion of the Westeel

equity not owned by Jannock.

On September 1, 1978, $30 million of First Preference shares (term shares with a floating rate) were issued to two banks to finance the acquisition of the Westeel shares. While the issue is shown under Shareholders' Equity, it must be noted that this form of security carries certain tests before additional debt can be incurred and for test purposes the shares are treated as long-term debt. Thus, a straight debt-equity ratio from the face of the Balance Sheet is misleading. The correct ratio would be $59.6 million debt, compared to $76.7 million of equity (not adjusted for intangibles and deferred taxes) or a debt-equity ratio of 0.8:1.

The reduction in retained earnings from the previous year is due to the capitalization of $15 million of surplus in 1978, prior to the elimination of the various tax surpluses under the last Federal Budget.

Before closing comments on the Balance Sheet, I would refer to Note 8, where shareholders will note that, because the $30 million of preference shares issued used up the total authorized shares of that class, a second series of equal amount was authorized for future financing purposes.

Capital Expenditures and Depreciation

The planned pattern of capital expenditures shown below moves the Corporation away from having its earnings dominated by any one of the group operations. The increase in net fixed assets can be summarized as follows:

	$000's
December 31, 1977	$42,900
Add: Westeel — acquisition	22,400
	65,300
Brick Group — acquisitions	6,800
— expansion	5,300
Other Operations — expansion	3,700
Less: Depreciation	(5,200)
December 31, 1978	$75,900

Depreciation expense increased from $3 million to $5.2 million representing increased depreciation from ongoing Jannock operations of $1.1 million plus $1.1 million from Westeel.

The capital commitments, as shown in Note 9, of $13.7 million are, in the main, for the Brick Group which accounts for $12.2 million. These Brick commitments include the start of a new plant and operation from "the ground up" in Texas which will be on stream in 1980.

Dividends

During 1978, there was a split dividend position between the A and B shares which has now been eliminated by the change in the tax rules. During the year, quarterly dividends were paid in accordance with AIB regulations and a special dividend of 50¢ per share was paid out of Capital Surplus to both the Class A and Class B shareholders.

The two classes of shares were reclassified as Common Shares as of January 3, 1979 and a quarterly dividend of 27¢ is the current rate for these shares. Optional stock dividends can be received in 1979 in either Common or Third Preference shares as detailed in the circular to Common shareholders.

Review of Quarterly Sales and Earnings

	Net Sales $ millions		Net Earnings $ millions		Earnings Per Share	
	1978	1977	1978	1977	1978	1977
First Quarter	42.0	37.3	2.6	2.2	$0.44	$0.35
Second Quarter	71.9	48.3	5.0	3.4	0.96	0.61
Third Quarter	109.1	46.8	5.9	3.9	1.13	0.73
Fourth Quarter	100.3	43.4	4.7	3.3	0.80	0.56
	323.3	175.8	18.2	12.8	$3.33	$2.25

Capital Reorganization

In November 1978, special shareholders' meetings were held to cover the capitalization of surplus, the payment of the Class B dividend on December 29 (rather than the normal January 2), the authorization of a second series of First Preference shares (the first series being fully issued to acquire Westeel) and the setting up of a Third Preference share class. These Third Preference shares can be received as stock dividends by shareholders commencing with the April 1, 1979 dividend. Such shares will not be listed on The Toronto Stock Exchange, but are retractable at any time by the holder on 60 days' notice. The Corporation has the right to redeem these shares upon 14 months' notice. They carry a 6% cumulative dividend.

Summary

The year 1978 was one of major growth essentially through acquisitions. There were major changes to the fiscal position of the Corporation in the areas of working capital and capitalization. The working capital ratio declined but stayed at a very healthy 1.7:1. Even though the ratio decreased, bank loans of $44 million are still covered by $135 million of accounts receivable and inventory and, in fact, are only 70% of receivables, a very healthy position. Capitalization, (long-term debt and equity) changed from 20% Debt/80% Equity to 44% Debt/56% Equity as the term preference shares of $30 million are treated as debt for test purposes. This ratio should put no major fiscal strain on the Corporation, as it has ample debt and dividend coverage.

Thus, the Corporation is now at a major new plateau and will continue its growth from this new level.

C.W. Leonardi,
Executive Vice President, Finance

Jannock Limited

Consolidated Statement of Earnings

for the Year Ended December 31, 1978

	1978	1977
Sales	**$323,301,799**	$175,773,097
Cost of sales, selling, distribution and general expenses	**277,299,052**	149,106,435
Depreciation	**5,152,874**	3,065,109
	282,451,926	152,171,544
Earnings from Operations	**40,849,873**	23,601,553
Interest on long-term debt	**3,292,315**	2,224,001
Interest on short-term debt	**3,106,632**	915,123
	6,398,947	3,139,124
Investment and other income	**1,233,638**	1,462,883
	5,165,309	1,676,241
Earnings Before Income Taxes	**35,684,564**	21,925,312
Provision for Income Taxes		
Current	**15,857,873**	8,239,121
Deferred	**484,470**	866,825
	16,342,343	9,105,946
Earnings Before Minority Interest	**19,342,221**	12,819,366
Minority Interest	**1,151,000**	—
Net Earnings for the Year	**$18,191,221**	$12,819,366
Earnings per share (note 8)	**$3.33**	$2.25

See accompanying statement of accounting policies and notes to financial statements.

Jannock Limited

Consolidated Statement of Retained Earnings

for the Year Ended December 31, 1978

	1978	1977
Balance — Beginning of Year	**$22,084,528**	$15,044,051
Net earnings for the year	**18,191,221**	12,819,366
	40,275,749	27,863,417
Dividends —		
First Preference shares	**624,990**	—
8% Second Preference shares	**1,975,719**	1,826,179
Class A and Class B shares	**5,412,127**	2,448,419
	8,012,836	4,274,598
Retained earnings capitalized (note 8)	**15,239,068**	—
Cost over (under) stated book value of shares purchased for cancellation	**(4,755)**	1,358,936
Cost of capital reorganization	**—**	145,355
	23,247,149	5,778,889
Balance — End of Year	**$17,028,600**	$22,084,528

See accompanying statement of accounting policies and notes to financial statements.

Jannock Limited

Consolidated Balance Sheet

as at December 31, 1978

Assets

	1978	1977
Current Assets		
Cash and short-term investments	**$ 20,804,104**	$ 14,525,563
Accounts receivable	**64,565,947**	23,346,722
Inventories (note 2)	**71,257,051**	25,156,396
Prepaid expenses and other assets	**2,513,159**	2,982,485
	159,140,261	66,011,166
Fixed Assets — at cost (note 3)	**125,865,862**	69,863,495
Less: Accumulated depreciation and amortization	**49,920,588**	26,973,259
	75,945,274	42,890,236
Other Assets (note 4)	**3,002,127**	2,076,833
Intangibles (note 5)	**12,336,897**	12,336,897
	$250,424,559	$123,315,132

See accompanying statement of accounting policies and notes to financial statements.

Signed on behalf of the Board

George E. Mara, Director

H. Gordon MacNeill, Director

Liabilities

	1978	1977
Current Liabilities		
Bank indebtedness (note 6)	**$ 43,973,902**	$ 12,742,544
Accounts payable and accrued liabilities	**36,853,375**	15,048,944
Income taxes payable	**8,891,558**	3,742,379
Current instalments of long-term debt (note 7)	**228,483**	642,161
Dividends payable	**1,242,302**	1,119,554
Deferred income taxes	**1,666,000**	—
	92,855,620	33,295,582
Long-Term Debt (note 7)	**29,597,207**	16,482,918
Deferred Income Taxes	**10,438,732**	6,799,262
Minority Interest	**10,872,038**	—
	143,763,597	56,577,762
Shareholders' Equity		
Share Capital (note 8)		
Issued and fully paid —		
1,500,000 First Preference shares, First Series	**30,000,000**	—
1,635,708 8% Second Preference shares	**24,535,620**	24,993,120
4,689,271 Class A and Class B shares (reclassified as Common shares on January 3, 1979)	**35,096,742**	19,659,722
Retained Earnings	**17,028,600**	22,084,528
	106,660,962	66,737,370
	$250,424,559	$123,315,132

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Jannock Limited as at December 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Toronto, Ontario Chartered Accountants
February 19, 1979

Jannock Limited

Consolidated Statement of Changes in Financial Position

for the Year Ended December 31, 1978

	1978	1977
Source of Working Capital		
Net earnings for the year	**$18,191,221**	$12,819,366
Items not affecting working capital —		
Depreciation	**5,152,874**	3,065,109
Deferred income taxes	**484,470**	866,825
Amortization of intangibles	**139,709**	221,255
Loss (gain) on sale of fixed assets	**(95,290)**	37,991
Minority interest in earnings	**1,151,000**	—
Provided from operations	**25,023,984**	17,010,546
Disposal of fixed assets	**209,871**	136,825
Reduction of investments	**298,330**	3,782,396
Issue of share capital	**30,197,952**	396,550
Increase in long-term debt	**18,095,500**	3,998,000
	73,825,637	25,324,317
Use of Working Capital		
Acquisition of subsidiaries	**40,769,590**	2,948,033
Less working capital acquired	**31,124,046**	973,000
	9,645,544	1,975,033
Increase in investments	**33,333**	1,333,998
Additions to fixed assets	**9,024,911**	8,845,917
Reduction of long-term debt	**12,838,211**	13,690,009
Cost of reduction of share capital	**452,745**	3,320,255
Dividends to shareholders	**8,012,836**	4,274,598
Dividends to minority shareholders of subsidiaries	**249,000**	—
Cost of capital reorganization	**—**	188,903
Other	**—**	58,014
	40,256,580	33,686,727
Increase (Decrease) in Working Capital	**33,569,057**	(8,362,410)
Working Capital — Beginning of Year	**32,715,584**	41,077,994
Working Capital — End of Year	**$66,284,641**	$32,715,584

See accompanying statement of accounting policies and notes to financial statements.

Jannock Limited

Statement of Accounting Policies

for the Year Ended December 31, 1978

Principles of Consolidation

The consolidated financial statements include the accounts of all subsidiaries. Intercompany transactions and the year end account balances have been eliminated on consolidation. Acquisitions are accounted for by the purchase method and accordingly the results of operations of subsidiaries are included from the dates of acquisition.

Inventories

Inventories, other than commodity inventories, are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Commodity inventories are stated at the lower of cost and replacement cost. Cost is determined on a first-in, first-out basis with the exception of refined sugar, which is determined on the average cost for the year.

Fixed Assets

Fixed assets are carried at cost.

Depreciation of fixed assets, which is based on management's estimate of the useful life, is calculated on a straight-line basis.

Profits and losses on the sale of fixed assets are charged to operations unless of an extraordinary nature.

Deferred Income Taxes

Deferred income taxes are provided for all differences between the income and expenses reflected in the statements and the amounts included in the computation of income for tax purposes for the current year, provided that such differences will be included in the computation of income for tax purposes in future years. These timing differences are primarily comprised of:

- the excess of capital cost allowance for income tax purposes over depreciation expense.
- accounts receivable holdbacks and profit on uncompleted contracts which are not yet subject to income taxes.

Investment tax credits are deferred and amortized over the useful life of the related assets.

Intangibles

The excess of cost of investment in subsidiaries over the assigned value of net assets acquired is recorded as an intangible asset. The amount arising prior to March 31, 1974 is not being amortized as management believes it has a continuing value. The amount relating to acquisitions after March 31, 1974 is being amortized on a straight-line basis over the lesser of its estimated useful life and forty years.

Translation of Foreign Currencies

Accounts in foreign currencies have been translated into Canadian dollars using the "temporal" method. Under this method current assets (except inventories), current liabilities and long-term debt are translated at the year-end exchange rate. The other assets and liabilities, including inventories and fixed assets, and the related charges to reflect cost of inventories sold and depreciation, are translated at the historical rate of exchange prevailing at the date of acquisition. All other revenue and expense accounts are translated at the average rate of exchange during the year, calculated on a monthly basis.

Exchange gains or losses on translation of long-term debt are amortized on a straight-line basis over the term of the debt. The amortization for the year and all other foreign exchange gains and losses are included in the determination of net earnings for the year.

Contract Revenues

Revenues from construction supply-and-install contracts are recognized on the percentage of completion basis.

Jannock Limited

Notes to Consolidated Financial Statements

for the Year Ended December 31, 1978

1. Significant Changes in Operations

The Corporation acquired 76.6% of the outstanding shares of Westeel-Rosco Limited effective May 31, 1978 at a total cost of $32,636,962 cash. Details of this acquisition are as follows:

Assigned value of net assets:

	$
Fixed assets (net)	22,426,000
Investments	750,000
Long-term debt	(7,277,000)
Deferred income taxes	(3,132,000)
	12,767,000
Working capital	29,840,000
	42,607,000
Less minority interest	9,970,038
Total consideration	32.636.962

On March 31, 1978 the Corporation purchased for cash the operating assets of H.B. Sipple Brick Company of Stanton, Kentucky. On August 31, 1978 the Corporation purchased for cash all the outstanding shares of Richland Brick Company of Mansfield, Ohio. Details of these acquisitions are as follows:

Assigned value of net assets:

	$
Fixed assets	6,848,582
Working capital	1,284,046
Total consideration	8,132,628

2. Inventories

	1978 **$**	1977 $
Raw materials and supplies	**20,347,843**	10,171,804
Work in process	**9,366,230**	997,177
Finished goods	**41,542,978**	13,987,415
	71,257,051	25,156,396

3. Fixed Assets

	1978			1977	
	Cost $	Net $	Depreciation rates %	Cost $	Net $
Land	**8,840,153**	**8,603,110**	—	3,870,477	3,708,724
Buildings	**38,089,181**	**25,178,988**	2½ - 5	17,234,912	10,992,733
Plant equipment	**67,123,807**	**35,267,716**	3 - 20	40,395,854	22,316,267
Mobile equipment	**3,809,614**	**1,964,141**	20 - 33	1,910,601	1,160,088
Furniture and fixtures	**4,551,677**	**1,576,536**	10 - 20	2,570,491	893,478
Leasehold improvements	**162,201**	**65,554**	5 - 20	113,586	51,372
Construction in progress	**3,289,229**	**3,289,229**	—	3,767,574	3,767,574
	125,865,862	**75,945,274**		69,863,495	42,890,236

Insured value on the basis of replacement cost as at December 31, 1978 was $199,200,000.

4. Other Assets

Other assets includes a long-term loan receivable from an officer of $398,795 (1977 - $407,125).

5. Intangibles

	1978 $	1977 $
Excess of cost of investment in subsidiaries over assigned value of net assets acquired —		
Canada Brick	**1,969,407**	1,969,407
Sonco	**7,002,579**	7,002,579
Allanson	**2,973,238**	2,973,238
Other	**391,673**	391,673
	12,336,897	12,336,897

6. Bank Indebtedness

Bank loans are secured by inventories and a general assignment of book debts.

All bank loans, with the exception of $207,375, are owing to a bank which is a shareholder of the Corporation.

7. Long-Term Debt

	1978 $	1977 $
Jannock Limited		
Sinking fund debentures 6¾% Series 'A' maturing 1985 Unsecured	**1,057,310**	1,176,730
Jannock Industries Limited		
Sinking fund bonds 6¾% Series 'A' maturing 1984 Secured by guarantee of Jannock Limited	**1,906,000**	2,147,000
Atlantic Sugar Limited		
10¼% first mortgage	**—**	407,451
Westeel-Rosco Limited		
Mortgage - 10½% maturing 1992 Secured by certain fixed assets	**3,270,000**	—
Canada Brick Company Limited		
Term loan - commercial paper rate plus 1½% maturing 1984	**8,300,000**	8,300,000
Term loan "Libor" rate plus 1¼% maturing 1984. The principal amount is $11,700,000 U.S.	**13,864,100**	—
These two loans are secured by a first mortgage on the fixed assets of Canada Brick Company Limited and other collateral.		
Michigan Brick, Inc.		
Term Loan	**—**	3,585,000
St. Lawrence Brick Co. Limited		
First mortgage sinking fund bonds 9⅜% Series 'A' maturing 1990 Secured by fixed assets	**1,143,000**	1,200,000
Sonco Steel Tube Limited		
First mortgage 7¾% maturing 1986 Secured by land and buildings	**285,280**	308,898
	29,825,690	17,125,079
Less: Sinking fund and principal payments due within one year	**228,483**	642,161
	29,597,207	16,482,918

Payments of principal and interest (calculated, where applicable, on rates existing at December 31, 1978) required during the next five years to meet long-term debt instalments and sinking fund provisions are:

	Principal $	Interest $
1979	228,483	2,868,639
1980	3,354,662	2,763,832
1981	3,373,084	2,443,202
1982	3,385,837	2,121,012
1983	3,401,250	1,797,505

The term bank loan of $13,864,100 is owed to banks which are shareholders of the Corporation.

8. Share Capital

(a) Authorized

1,500,000 First Preference shares with a par value of $20 each, issuable in series. The First Series, consisting of the total 1,500,000 authorized shares were designated as cumulative, redeemable and non-voting unless six quarterly dividends in arrears. The dividend rate in 1978 for these shares is 6¼% and thereafter will be a rate equal to one-half the Canadian prime bank rate plus 1¼%. The Corporation must redeem 250,000 of these shares in each of the years 1985 to 1987 inclusive and the balance in 1988. The provisions attaching to these shares provide for early retirement in certain events and contain certain restrictions on the issuance of additional debt.

1,715,560 8% Cumulative Redeemable Second Preference shares with a par value of $15. These shares may be purchased for cancellation from a $300,000 annual purchase fund and carry no voting rights until six quarterly dividends are in arrears.

7,539,195 Class A and Class B shares, without par value; voting; inter-convertible on a share for share basis.

1,000 Common shares without par value.

By a Certificate of Amendment of Articles effective January 3, 1979 the following changes were made to the capital structure:

(i) Increased the authorized First Preference shares to 3,000,000 shares, issuable in series.

(ii) Authorized 1,000,000 6% cumulative, non-voting Third Preference shares with a par value of $10 each.

(iii) Reclassified the Class A shares and Class B shares as Common shares.

(iv) Increased the authorized Common shares to 10,000,000 shares.

(b) Issued during year

There were 26,496 Class A and Class B shares issued during the year for a cash consideration of $197,952 as the result of the exercise of certain options and warrants.

There were 1,500,000 First Preference shares, First Series, issued during the year for $30,000,000 cash.

(c) Reservations of Capital Stock

(i) Warrants

The following share purchase warrants are outstanding:

Name	**Number**	**Number and Class of shares**	**Exercise Price**	**Expiry Date**
1977 Warrants	792,652	1 Class A (reclassified as Common January 3, 1979)	$12.00 per share $15.00 per share	July 31, 1982 July 31, 1987

(ii) Options

103,750 Class B shares have been reserved under stock option plans for officers and employees. Outstanding options are as follows:

Number of Shares	**Option Date**	**Expiry Date**	**Exercise Price**
7,000	June 18, 1969	June 18, 1979	$7.00
6,000	April 19, 1972	April 19, 1982	$7.00
13,000			

125,000 Class B shares are reserved under a share purchase plan for officers and employees. The purchase price is market value at the date of issue of shares under the plan.

(d) Capitalization of Retained Earnings

Pursuant to By-Law 10 of the Corporation enacted by the directors November 24, 1978 and ratified at a shareholders' meeting November 27, 1978, retained earnings in the amount of $15,239,068 was transferred to the stated capital of the Class A and B shares. This amount represented $3.25 per each outstanding Class A and Class B share at that time.

(e) Earnings per Share

Earnings per share were calculated on the following basis:

	1978	1977
Net earnings for the year	**$18,191,221**	$12,819,366
Net earnings applicable to Class A and B shares	**$15,590,512**	$10,993,187
Weighted average number of Class A and B shares outstanding during the year	**4,675,575**	4,876,453
Earnings per share	**$3.33**	$2.25

The exercise of warrants and options would result in dilution of 1978 earnings per share as follows:

Earnings per share	**$3.33**	$2.25
Exercise of options	**—**	(.01)
Exercise of warrants	**(.39)**	(.24)
Fully diluted earnings per share	**$2.94**	$2.00

9. Commitments

Lease commitments are as follows:

	$
1979	1,217,506
1980	936,559
1981	724,301
1982	420,878
1983	234,805
1984-1988	717,053
1989-1993	251,325
	4,502,427

Capital expenditures committed at December 31, 1978 amounted to $3,000,000. In addition, the board of directors has approved a further $10,750,000 of capital expenditures.

10. Pension Plans

The Corporation and its subsidiaries have a number of pension plans for employees. There are no significant unfunded liabilities in respect of these pension plans.

11. Statutory Requirements

As required by Section 178 (3) of the Ontario Business Corporations Act, the aggregate direct remuneration paid to the directors and officers during 1978 totalled $535,589 (1977 - $496,000).

12. Anti-Inflation Legislation

The Corporation and its subsidiaries were subject to restraint of profit margins, prices, dividends and compensation under the terms of the Anti-Inflation Act and Regulations. In management's opinion, the Corporation and its subsidiaries have complied with the provisions of the Act.

13. Comparative Figures

Certain 1977 figures have been reclassified for comparative purposes.

14. Sales

The sales by class of business were as follows:

	1978	1977
	$	$
Steel	**184,240,693**	49,995,673
Sugar	**88,535,775**	87,159,080
Brick	**40,221,852**	29,385,140
Other	**10,303,479**	9,233,204
	323,301,799	175,773,097

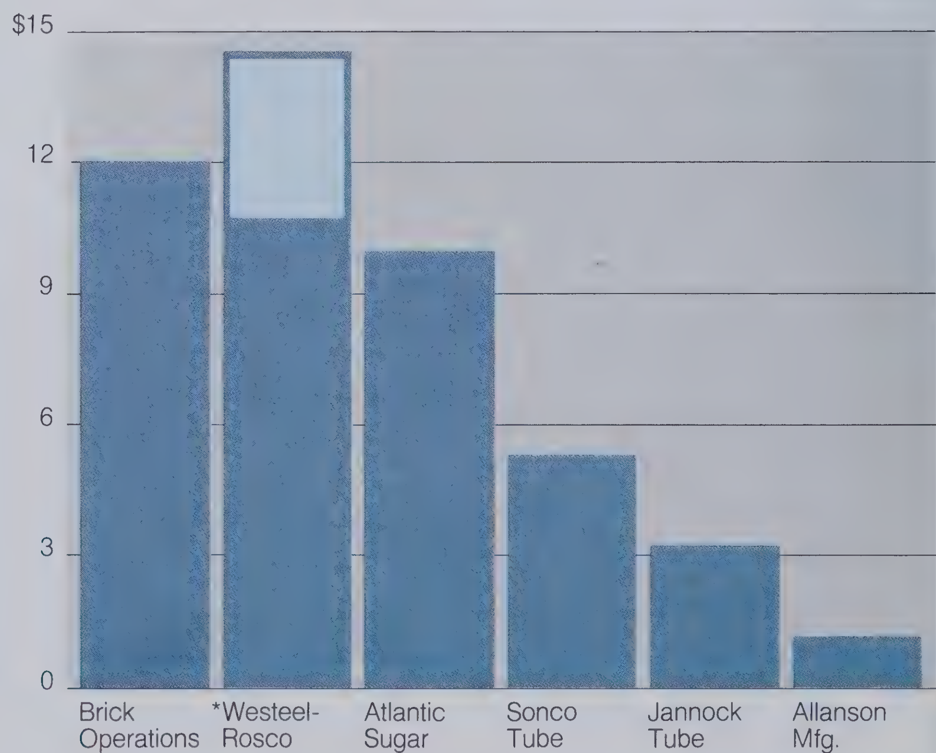
Historical Summary

Income Information ($000)	**1978**	1977	1976	1975	1974
Sales	**323,302**	175,773	174,640	226,943	254,710
Earnings from Operations	**40,850**	23,602 (3)	22,200	17,125	24,361
Net Earnings before Extraordinary Items	**18,191**	12,819	11,211	7,569	10,921
Net Earnings after Extraordinary Items	**18,191**	12,819	11,249	7,342	9,732
Depreciation	**5,153**	3,065	2,590	3,250	3,360
Earnings per Share ($) —					
Before Extraordinary	**3.33**	2.25	1.85	1.13	1.80
After Extraordinary	**3.33**	2.25	1.85	1.09	1.56
Cash Flow from Operations	**25,024**	17,011	15,536	12,246	14,862
Interest on Long-Term Debt	**3,292**	2,224	2,646	2,914	3,218
Balance Sheet Information ($000)					
Current Assets	**159,140**	66,011	65,945	70,610	97,941
Current Liabilities	**92,856**	33,295	24,867	37,853	63,587
Working Capital	**66,284**	32,716	41,078	32,757	34,354
Fixed Assets — Net	**75,945**	42,890	35,178	36,020	40,654
Other Assets	**3,002**	2,077 (3)	4,980	2,426	4,158
Intangibles	**12,337**	12,337 (3)	12,431	12,481	9,405
Total Assets	**250,425**	123,315	118,535	121,537	152,158
Long-Term Debt	**29,597**	16,483	25,643	22,716	26,542
Deferred Income Taxes	**10,439**	6,799	6,763	6,818	10,865
Minority Interest	**10,872**	—	—	—	—
First Preference Shares — Book Value	**30,000**	—	—	—	—
Second Preference Shares — Book Value	**24,536**	24,993	24,726	25,048	25,277
Shareholders' Equity — Class A and Class B (2)	**52,125**	41,744	36,535	29,102	25,887

Source of Earnings from Operations

(in millions of dollars)

*The Corporation acquired 76.6% of the outstanding share of Westeel-Rocso Limited effective May 31, 1978.



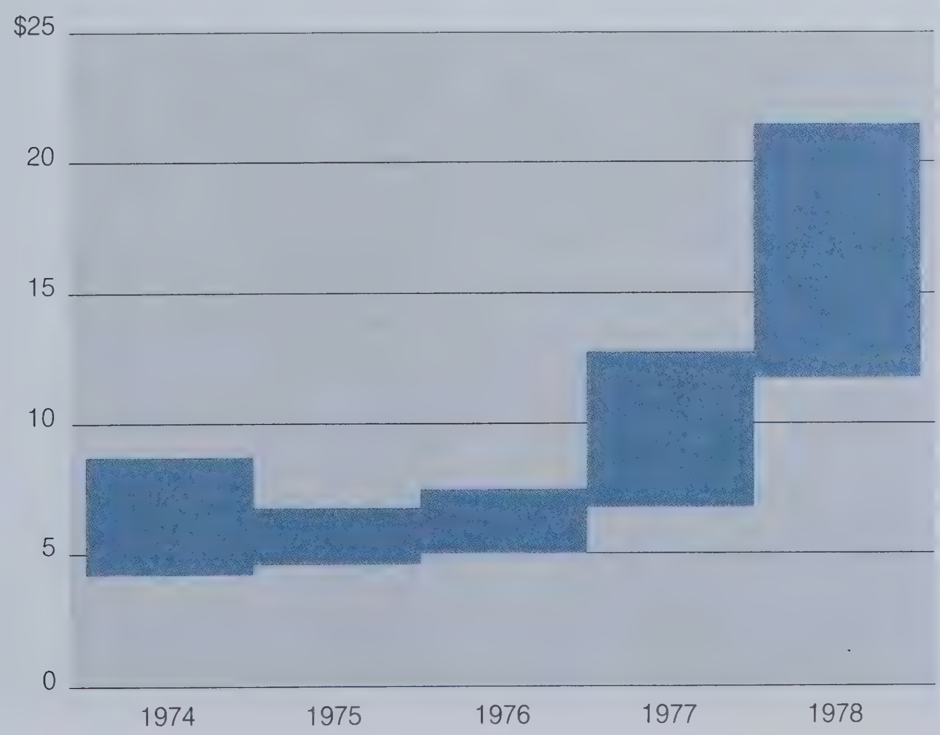
Shareholder Information	**1978**	1977	1976	1975	1974
Dividend Paid ($) —					
Class A (2)	**1.08**	.54	.50	.50	.43
Class B (2)	**1.22**	.46	.43	.43	.36
Equity per Share ($)	**11.12**	8.95	7.21	5.83	5.19
Return on Shareholders' Equity (%)	**29.9**	26.3	25.5	19.5	34.8
Number of Shares Outstanding — Class A and Class B (2)	**4,689,271**	4,662,775	5,066,930	4,991,930	4,991,930
Number of Shareholders — Class A and Class B (2)	**5,152**	5,635	5,764	6,073	6,607
Number of Second Preference Shares Outstanding	**1,635,708**	1,666,208	(1)	(1)	(1)
Number of Second Preference Shareholders	**4,887**	5,118	(1)	(1)	(1)
Market Range ($)					
Equity Shares (2) — High	**21.50**	12.75	7.50	6.75	8.75
— Low	**11.75**	6.75	5.00	4.70	4.25
Second Preference Shares —					
High	**15.63**	14.63	(1)	(1)	(1)
Low	**13.75**	13.00			
1977 Warrants —					
High	**15.25**	3.50	(1)	(1)	(1)
Low	**3.20**	1.50			

Notes:

(1) Not applicable due to effect of 1977 Share Capital Reorganization
(2) Reclassified as Common Shares January 3, 1979
(3) Certain 1977 numbers have been reclassified for comparative purposes.

Price Range of Equity Shares

(in dollars)



Brick Operations

Five Year Review

	Sales ($ million)	Earnings from Operations ($ million)
1978	40.2	12.0
1977	29.4	8.6
1976	23.0	7.2
1975	15.0	5.0
1974	9.0	2.6

Business Description

The Brick operations are characterized by having relatively large, energy efficient plants strategically located near major markets and having a broad geographic dealer representation.

The plants produce an extensive range of clay brick in a wide variety of sizes, colours and textures. Michigan Brick also produces "Real Brick", a thin brick product which has attractive applications in wall panels and interior use. Corner units of that product are shown on the opposite page.

At year end the Canadian plants' capacity was 220 million units annually and the American plants' capacity was 160 million units.

Operations Review

1978 was a year of growth both by acquisition and expansion. Sipple Brick, a medium sized and highly automated and efficient plant located at Stanton, Kentucky with an annual capacity of 30 million units, was acquired at the end of March. Richland Brick and it's subsidiary company, Ohio Brick & Supply of Mansfield, Ohio, were purchased at the end of August. The combined capacity is about 50 million units annually. The facilities at the Mansfield location consist of a conventional plant and a facility which produces a sand moulded brick, a premium priced and very popular product because of its exceptional aesthetic appeal.

Late in the year agreement was reached for the purchase of McFarren Brick of Mississauga, Ontario. The sale is conditional on receiving approval from regulatory authorities to increase the rate of extraction of shale. Located about one mile from the main Mississauga plant, the site contains sufficient shale to extend the lifetime of that operation by eight years. The McFarren plant is capable of producing about 15 million units annually and will be operated to produce conventional and specialty products. The 60 acres of land will have considerable real estate value after the extraction of the shale.

Brick operations also purchased two contiguous parcels of land containing a total of 200 acres at Mineral Wells, Texas. The site is located some 70 miles west of Dallas and contains large deposits of shale. The plant to be erected on the site was in the design stage at year end; construction will commence in the spring of 1979 and be completed in the first half of 1980.

During the year the new plant on the Michigan Brick site was completed and successfully brought up to capacity. Construction was begun on a second kiln in the new plant, which will be brought on stream early in 1979. Once this new kiln is operational, two of the old, inefficient kilns will be retired as part of the systematic upgrading of the Michigan Brick facility.

Construction was also begun on a new kiln at Sipple Brick to double the capacity. Completion is planned for mid 1979.

The Canadian operations were faced with a slow start due in part to the severe weather. The plants were run at capacity through this period in anticipation of demand which materialized later in the year. Quebec failed to meet the forecasted level of construction, yet the St. Lawrence Brick operation was able to increase its sales through improved market penetration.

American operations entered the year on a note of strong demand which continued throughout most of the period. All locations benefited from this, as well as from exceptionally good weather late in the year.

Cost increases continued at all plants, particularly in fuel. The Canadian operations were adversely affected by the exchange rate of the Canadian dollar as much of the production machinery used is of American manufacture.

Labour contracts of two years duration were successfully negotiated at Canada Brick and at St. Lawrence Brick. Michigan Brick reached a three year agreement with employees. Richland Brick reached agreement on a three year contract with its employees a short time before the acquisition.

Outlook for 1979

The growth of both the Canadian and United States economies is anticipated to be slightly below that of 1978.

The residential housing market in Canada is expected to drop marginally due to the higher mortgage rates and the current level of unsold units. Non-residential construction is forecasted to be about equal to the past year.

It is anticipated the American market will experience a slackening in residential demand, but this will be offset by more active commercial markets.

Brick operations are, however, predicting another successful year. Growth will come from operations of the acquired plants for the full year, operating efficiencies and from increased capacities in the Michigan and Kentucky plants.

Westeel-Rosco

Five Year Review

	Sales ($ million)	Earnings from Operations ($ million)
*1978	178.0	14.5
1977	146.0	9.2
1976	132.5	12.4
1975	121.0	18.1
1974	115.0	17.4

Business Description

Westeel-Rosco's business activity is organized into five basic product groups: Agricultural, Building, Highway and Drainage, Warehouse/Residential and Industrial.

The Agricultural product group is best known for grain storage and handling systems like the one pictured opposite. The group also produces tanks for the storage of bulk feed, and roofing and siding for farm buildings.

Building products include roof and floor decking and pre-coated metal wall cladding. Westeel-Rosco has the Canadian franchise for Stran-Steel buildings and manufactures a wide range of multi-purpose pre-engineered metal buildings.

Highway and drainage products include corrugated metal culvert pipe, tunnel liner, bridge deck, guide rail and structural plate used for large span arches and tunnels.

The Warehouse/Residential product group provides an extensive range of steel and aluminum products to its customers through the Corporation's branches and the service centre in Toronto. Residential products include "Leisure Time" pre-painted privacy fencing and other building components.

The Industrial product group manufactures material handling and racking systems, industrial feed and chemical tanks and custom fabricated products.

*The sales and earnings from operations for 1978 are the full sales and earnings of Westeel-Rosco Limited for the complete year.

Operations Review

Agricultural product sales reached an all-time high of $70.2 million in 1978, an increase of 55% over 1977 sales of $45.4 million. The 1978 sales performance is due largely to increased demand for the Corporation's grain storage bins and systems because of a significant shift in grain storage from central terminals to the local farm. This "on-farm" storage is the result of transportation bottlenecks, limited terminal capacity and Government incentives for local storage. Fluctuating grain prices have also encouraged farmers to hold their own grain for future marketing. Through a joint venture, the Corporation is now able to provide grain bins on a fully installed basis.

Building products make up the second largest product group with 1978 sales of $50.7 million. This represents an 8% increase over 1977 sales of $47.1 million and indicates that the Corporation has been able to maintain a solid position in a business area which continues to show slow growth, particularly in Eastern Canada. Intense competition for the available business placed considerable pressure on profit margins.

During 1978, the Quebec Division secured an export contract involving roofs, floors and walls for a pulp and paper mill at Ashland, Virginia. Because of the extremely corrosive environment in the mill, the recently introduced Vinytop precoated steel was utilized for both exterior profile and inner liner sheet. This project involved over a quarter million square feet of wall surface.

The 1978 sales of Highway and Drainage products were $27.2 million, a nominal increase over 1977 sales of $26.8 million. This disappointing sales growth was due to a low level of activity in government road building programs. There was also a substantial over-capacity for the production of corrugated steel pipe and competition for the available business was keen.

In 1978, the Corporation introduced a new design corrugated pipe, with specially re-corrugated ends that result in much stronger joints between pipe lengths and provide for an improved water-tight seal.

Westeel-Rosco also developed full capability for the manufacture of corrugated steel pipe specified in metric units, in conjunction with Government implementation of the metric program.

A new manufacturing facility was opened in Whitehorse, in the Yukon Territory to provide culvert pipe to this developing market area.

Sales of Warehouse/Residential products were $17.3 million, up 22% over sales of $14.2 million in 1977. The sales increase is primarily due to increased activity in the Corporation's metal service centre.

Residential products experienced a low rate of overall sales growth. Acceptance of the "Leisure Time" privacy fence marketed to home owners remains good, but sales of other home products, particularly eavestroughing, were off considerably from 1977.

Industrial products 1978 sales were $12.6 million up marginally from 1977 sales of $12.5 million. The sales results reflect the continued sluggish growth in the Canadian capital goods and construction markets.

Outlook for 1979

Westeel-Rosco Limited expects to continue as a significant force in the five basic product groups in which it carries on business. In the agricultural storage and handling market it is expected the Corporation's position will be strengthened through ongoing product innovation and by expansion into new markets in North America.

Anticipated increases in industrial capital spending provide for a more optimistic outlook for building products in 1979.

Long-term growth prospects for highway and drainage products remain good, due to expected increases in spending by the expanding natural resource industries and product innovations which will allow the Corporation's products to move into new areas of application.

Atlantic Sugar

Five Year Review

	Sales ($ million)	Earnings from Operations ($ million)
1978	88.5	9.9
1977	87.2	8.8
1976	105.1	11.0
1975	149.9	9.1
1974	152.4	4.1

Business Description

Atlantic Sugar Limited, Canada's second largest refiner and seller of sugar, packages a full line of high quality products at its Saint John, New Brunswick refinery. This facility processes approximately 1,000 tonnes of cane sugar daily. Raw sugar, imported mostly from Commonwealth countries, is off-loaded at the Corporation's deep water dock the year round.

The Corporation supplies the Eastern Canadian market from Newfoundland to Western Ontario with granulated, brown, icing and liquid sugar in units ranging in size from 4 gram individual envelopes to 80 tonne bulk rail cars. These products are sold to chain stores, soft drink producers, bakeries, confectioners and wholesalers. Sugar is distributed from the Corporation's warehouses in Saint John, Montreal and Toronto. This distribution network is supplemented by public warehouses in other key locations in Eastern Canada.

Operations Review

Total sales of sugar in Canada increased slightly during 1978 and sales of Atlantic Sugar increased more than the Canadian average.

Competition in the Eastern Canadian sugar industry intensified during 1978 resulting in higher than normal price discounts. Nevertheless, earnings from operations were higher than last year mainly because of advantageous raw sugar purchases negotiated prior to the International Sugar Agreement coming into effect. Improvements in distribution facilities also resulted in a greater share of the growing and profitable liquid sugar market.

Rising costs continued to be of concern but through a number of improvements made at the refinery it was possible to offset cost increases, especially oil costs.

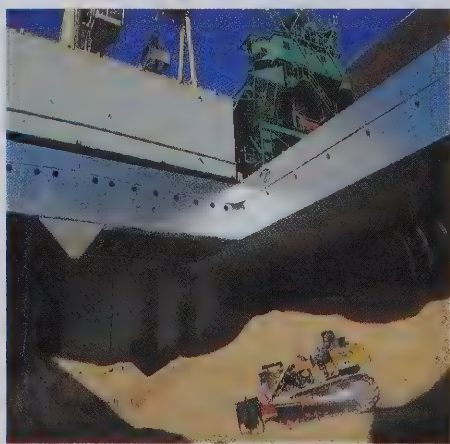
Additional filtering equipment was added to the refinery to further assure the production of quality products. In addition, two new cube making machines were installed at the end of the year and are already producing better quality cubes, packaged more attractively. Additional liquid tank cars have been ordered for 1979 to provide better service for our customers.

Outlook for 1979

With the world sugar market being in an oversupply condition, the Corporation does not expect prices to rise in the first half of 1979 although there may be a gradual increase in the second half.

High Fructose Corn Syrup, commonly referred to as H.F.C.S. is a high cost sugar substitute produced from corn. The Corporation has analyzed the impact of this product on sales and steps are being taken to minimize its effects on the business.

Although the Corporation does not expect any growth in sales in 1979, it is expected that results for the coming year will be at a satisfactory level.



Sonco Steel Tube

Five Year Review

	Sales ($ million)	Earnings from Operations ($ million)
1978	30.6	5.3
1977	23.7	4.0
1976	21.7	3.8
1975	17.5	3.1
1974	17.9	4.4

Business Description

Sonco is a major producer of tubular steel products. Hollow structural sections and mechanical steel tubing are manufactured by cold forming and electric welding steel strip purchased from the primary Canadian producers.

Mechanical steel tubing is fabricated in round, rectangular and oval shapes, ranging in size from .375 inches to 6 inches in diameter. The tubing is used in the manufacture of furniture, toys, baby carriages, snowblower and lawn mower handles, swing sets, exercise equipment and a wide variety of other products.

Hollow structural sections are fabricated in round and rectangular shapes up to 7 inches square, with wall thicknesses up to .375 inches. These sections are produced from "hot rolled" strip steel of various metallurgical compositions to meet specific customer requirements. Typical applications include highway guardrail, pictured here, industrial and agricultural equipment frames, building columns, mobile homes and racking.

Operations Review

At the outset of 1978, Sonco was faced with the same difficult, price competitive market that existed throughout 1977. However, the demand for steel products increased steadily throughout the year because of substantial improvements in the export sector of the Canadian economy.

The Corporation was able to improve its output over previous years by rationalizing its production into longer runs and eliminating certain unprofitable items. The installation of the "looper" on the large structural mill provided the basis for major productivity gains in the last quarter of 1978. The "looper" is a device that accumulates steel to provide a continuous flow to the mill eliminating the need to shut down when joining coils and thereby increasing production capacity by 20%.

During the year, Sonco began programs designed to improve the raw materials management and the in-plant handling of materials. These programs will result in improved efficiency during the coming year.

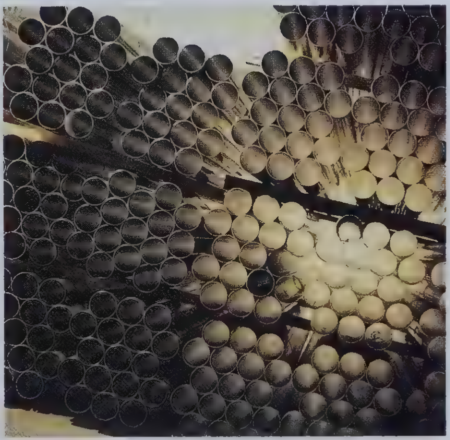
In November, a two-year agreement was signed with the United Steelworkers of America.

Outlook for 1979

A buoyant export market for Canadian manufactured products will result in a strong demand for steel tubing.

Real growth during the new year will come from the continuation of the rationalization programs begun in 1978. While steel allocations will result in a tight supply throughout 1979, Sonco expects to have the necessary steel to support its forecasted growth.

During 1979, the Corporation will install new equipment designed to upgrade and modernize the existing plant. Included in this program will be a new, more reliable "solid state" welder and more efficient materials handling system. In addition, plans will be completed that will provide for future long term growth through the addition of new mill equipment.



Jannock Tube

Five Year Review

	Sales ($ million)	Earnings from Operations ($ million)
1978	36.7	3.2
1977	28.9	2.1
1976	16.2	.5
1975	17.6	1.3
1974	17.2	1.5

Business Description

Jannock Tube distributes over 2200 sizes of round, square and rectangular tubing and pipe products. The Corporation maintains an inventory valued in excess of 7 million dollars purchased from over 50 sources in North America and abroad. The Lyman division warehouses are located in Montreal, Oakville and Winnipeg. Tubeco division operations are in Calgary, Edmonton and Vancouver.

The Corporation sells to many different industries and its 8000 customers range in size from one man machine shops to multimillion dollar conglomerates. Because the average order is only $500 it must process many individual orders efficiently to maintain customer loyalty and confidence.

Operations Review

Sales started strongly in 1978 and continued to build throughout the year. By midyear the Corporation had processed as many orders as it had for the whole of the previous year. This reflected increased activity in most of the industries it serves, but also demonstrated the customers reluctance to make large volume commitments directly to mill sources during periods of economic uncertainty.

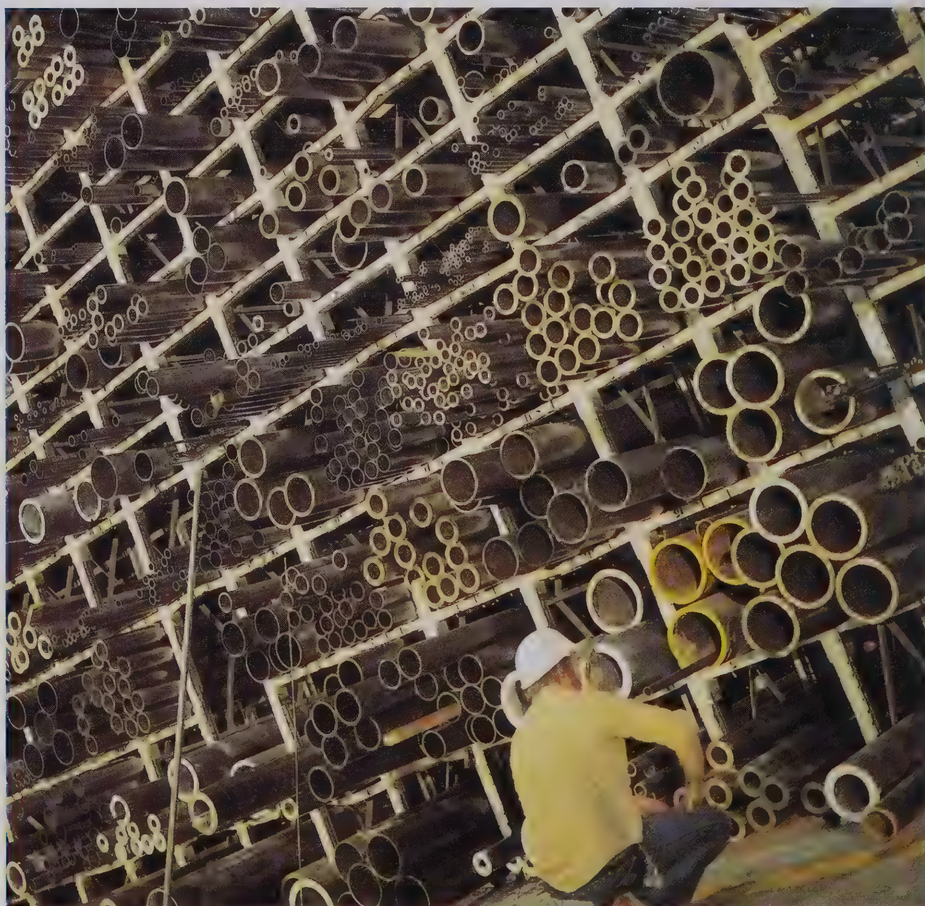
The strong demand for tubing products led to increased lead times from the Corporation's suppliers and the availability of certain products was restricted by supplier allocation. A high degree of ingenuity was required by the Corporation's purchasing, sales and delivery teams to maintain a high level of customer service.

Computer facilities were upgraded during the year to provide management with better information on inventory positions and to simplify the order handling procedure for both divisions.

The Corporation carried out a major expansion at the Lyman Winnipeg facility by doubling its size, thus enabling it to warehouse additional inventories and improve service to Manitoba and Saskatchewan customers.

Outlook for 1979

The growth and increased profitability of 1978 has encouraged increased competition, both domestic and foreign, in all markets across Canada. Steel availability will likely further tighten and allocations will become more general as the year progresses. The Corporation expects to have good supply of all product lines because of its prior years' sales and therefore maintain its dominant position within the industry.



Allanson Manufacturing

Five Year Review

	Sales ($ million)	Earnings from Operations ($ million)
1978	10.3	1.2
1977	9.2	1.2
1976	9.1	1.1
1975	6.6	.8
1974	6.7	.9

Business Description

Allanson produces a wide range of electrical equipment for the heating, lighting and consumer products industries.

The principal products are a full line of ignition transformers and fuel pumps used on both residential and industrial oil furnaces. These transformers are exported around the world. Allanson is also a prime supplier of fluorescent ballasts and neon transformers for Canada's illuminated sign industry. The high intensity discharge ballasts are used for both indoor and outdoor lighting, from highway applications to shopping centres. Allanson's other product lines include power converters, which are used extensively in the recreational vehicle market and portable battery chargers.

Operations Review

While Allanson did show an increase in sales in 1978 over 1977, higher costs and the effect of changes in product mix only permitted it to generate earnings equal to those of the previous year.

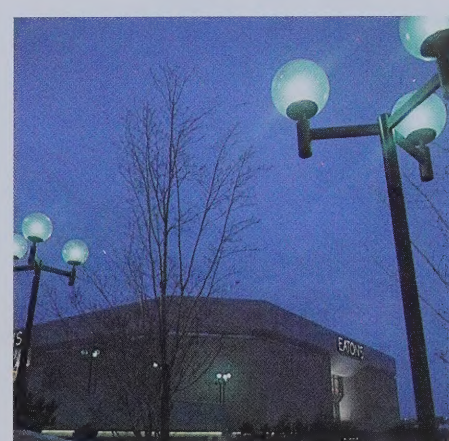
The bulk of the business is tied directly to the oil heating and illuminated sign industries, neither of which showed growth during 1978. Allanson has increased its market share of the general street and area lighting products as well as the battery charger and power converter lines. Competitive market factors in these product lines, however, were extremely strong and as a consequence margins were not sufficient to offset higher operating costs due to heavy new product development and plant refurbishing programs.

Outlook for 1979

Allanson hopes to fill a role in certain specialized markets which will enable it to achieve results better than general economic forecasts would indicate.

A great deal of development effort has been devoted to the design and tooling necessary to introduce a smaller, more energy sensitive transformer for the oil heating industry and it is expected that Allanson can reach a portion of the U.S. market with this product. This is only one of the export possibilities being explored by Allanson to take full advantage of the current value of the Canadian dollar.

As part of the commitment to increase its participation in energy conserving products, Allanson has recently made its first deliveries of a new fluorescent ballast developed as part of a joint project with Honeywell Limited, which will package Allanson's ballasts as a component of a total environmental control system for new and existing buildings.



Corporate Directory

Corporate Management

H. Gordon MacNeill, President and Chief Executive Officer

C.W. (Leo) Leonardi, Executive Vice President, Finance

R. Harold Weir, Vice President and Secretary

R. Keith McAlpine, Controller

Peter S. Hayward, Treasurer

G. Wallace Wood, Executive Assistant to the President

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Bankers

The Toronto-Dominion Bank

Auditors

Coopers & Lybrand

General Counsel

Fraser & Beatty, Toronto
McCarthy & McCarthy, Toronto

Incorporation

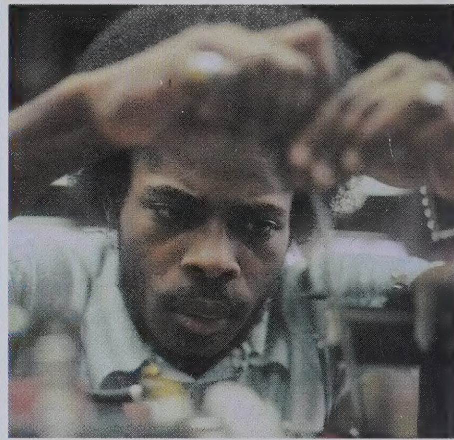
Province of Ontario

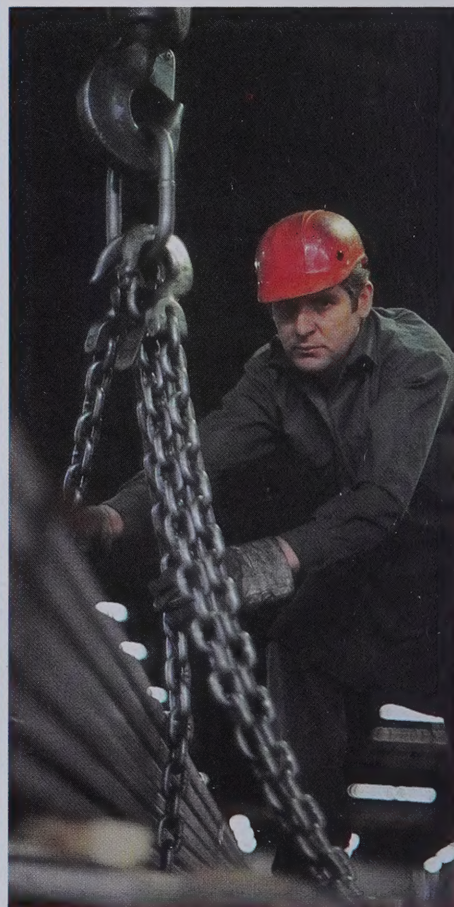
Stock Listing

The Toronto Stock Exchange
The Montreal Stock Exchange

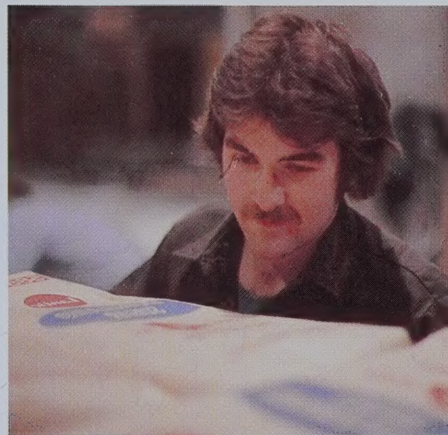
Transfer Agent & Registrar

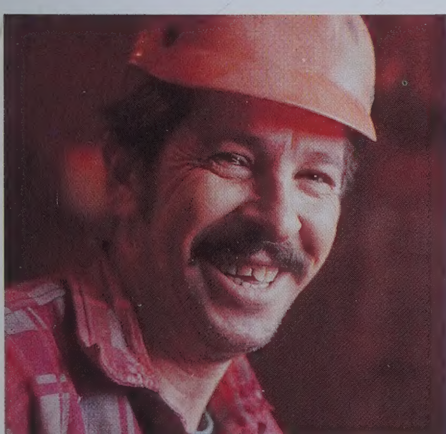
Canada Permanent Trust Company
Montreal, Toronto, Winnipeg, Calgary and Vancouver

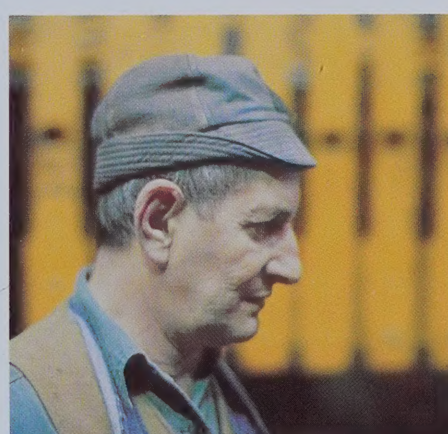


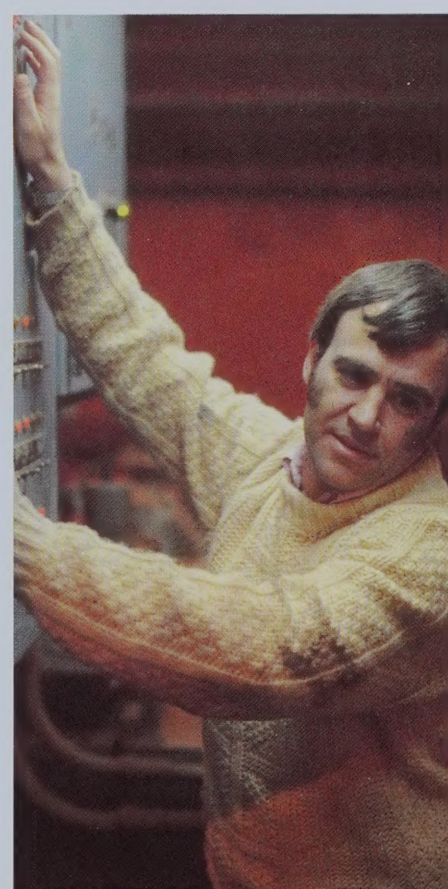


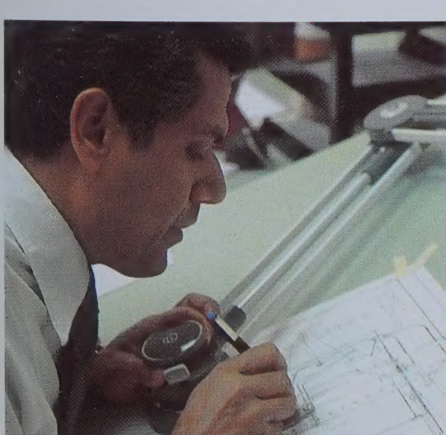
The directors and operating management would like to express their appreciation to the 3,880 employees whose combined efforts made 1978 an outstanding year.











Jannock Limited
Annual Report 1978